

February 11, 2009 - HAC-D Hearing on the DoD's use of Contract Services and Acquisition Management

On Wednesday, February 11, 2009

the House Appropriations Subcommittee on Defense held an OPEN hearing on the Department's increase in the contracting out of services (outsourcing) that were once performed by government employees; oversight of these procedures and policies; as well as the acquisition management of these contracts. Testimony was received from Mr. Gene Dodaro, Acting Comptroller, U.S. Government Accountability Office (GAO).

Statement of
Chairman John P. Murtha:

"America has relied on contractors for national security support and material since the founding of our nation, but never has this reliance been more pervasive and more unaccountable than today. The Defense Department continues to cut spending on government personnel, while at the same time dramatically increasing spending on contract services. These decisions have often resulted in higher costs, lower qualities, and no accountability or oversight.

"This Committee has focused considerable attention on this issue over the past two years, yet even today, the DoD has failed to answer a fundamental question: "How many contractors has DoD hired and what duties are they performing for the Department?" Some of the latest reports show that in just the CENTCOM area of responsibility, there are 267,000 DoD contractors.

"The Secretary of Defense's office has yet to establish a chain of accountability and oversight for contract services, and it appears that they have given no thought to the appropriate mix of federal and contracted personnel. This must change.

"This Committee cut contract services by 5% (\$4.5 billion) in the House mark of the FY09 Defense Appropriations Bill. We also provided an increase of \$943 million for the Department to hire civilian employees in order to perform more work in-house. The conferenced appropriations bill that was signed into law for FY09 cut contract services by \$650 million, and added \$24 million to the DoD Inspector General's Office to hire additional personnel to oversee this growth.

"This Committee is also very concerned with the Defense Department's management and acquisition of major weapons systems. The DoD acquisition system has been plagued with cost overruns, and a recent GAO report of five major weapons systems found that cost overruns ranged from 20% for the Global Hawk to 33% for the Future Combat System. To compensate for these shortfalls, the Department makes unplanned and inefficient funding adjustments, like moving money from one program to another, deferring costs into the future, or reducing procurement quantities.

“In addition, the Defense Department lacks an adequate workforce of acquisition managers -- a problem long recognized but yet to be corrected.

“The GAO has written extensively on these subjects, and we hope to hear their advice on needed improvements to these areas.”

Additional Information:

Despite the growing and seemingly unconstrained reliance on contractors to accomplish the DoD mission, no system of accountability for contract service costs or performance has been established. Using data supporting the prior budget requests, we see that contract service costs have grown by more than 100 percent in constant dollars over a ten-year period.

The Defense Department has been unable to determine how many contractors and subcontractors there are, or what their average salary is. The responsibility for acquiring services within DoD is spread among individual military commands, weapon system program offices, or functional units on military bases with no central oversight. Contractors and civilian and military personnel work side-by-side and are often indistinguishable from one another. In DoD, contractors manage other contractors and even manage government and military personnel. For example, in March of last year, the GAO found that 42 percent of the Army’s contracting center of excellence was staffed by contractors. In other words, contractors were making decisions on government contracting. In another example, we learned that the OSD Comptroller had contracted for the development of budget justification of the fiscal year 2008 supplemental funding request. As a result, there is little, if any, visibility of the totality of DoD’s use of contractors to provide services at either the DoD or military department level. Further, DoD has not defined or measured the value it seeks from contract service dollars, in part because the roles of contractors are not fully known or defined.

Additionally, the relative cost of the contracted workforce as compared to the military and federal civilian workforce has grown extraordinarily, fueled by OMB’s commercial activities and “competitive sourcing” programs. In 1997, DoD spending on contract services and supplies (largely in the Operation and Maintenance (O&M) accounts) was less than half, and now it is greater than half, of the DoD budget. Further, spending on government payroll fell from a third to just over a quarter of the DoD total spending. In 1997 military personnel pay accounted for 26% of the budget and federal civilian pay accounted for 8% of the DoD budget. In 2007 these percentages fell by 5% and 2% for military and federal civilian pay respectively.

Comparison of DoD Obligations by Category

1997

2000

2007

Military Personnel

26%

25%

21%

Civilian Personnel

8%

8%

6%

Contracts services and supplies

48%

47%

51%

Acquisition of Capital Assets

18%

20%

22%

Total

100%

100%

100%

As required by the 2008 National Defense Authorization Act, the Army began to assess their reliance on contractors and has started to "in-source" inherently governmental functions. To date, the Army has in-sourced approximately 1,500 jobs at an average savings of \$44,000 per position per year.

According to the Defense Department, there were 267,000 contractors deployed to the CENTCOM area of responsibility as of November 1, 2008. These contractors perform a wide array of wartime functions—including but not limited to—interpretation/translation, security, weapon systems maintenance, intelligence analysis, facility operations support, and road construction—that relate to practically every facet of U.S. military operations in Iraq and Afghanistan. The General Accountability Office (GAO) has extensively studied and reported on the use of deployed contractors. In September 2008, the GAO cautioned that the lack of effective oversight over the large number of deployed contractors raises the potential for mismanagement of millions of dollars. The GAO found that poor planning, changing requirements, and inadequate number of contract oversight personnel in Iraq and Afghanistan led to an average 385 percent cost increase in the service contracts that GAO sampled.

In terms of acquisition management, there is increasing evidence that DoD has not funded acquisition programs to their full cost. Over the last several years there are numerous examples of programs that have required an infusion of funding during program execution to correct shortfalls. In recent years, the Littoral Combat Ship, the Future Combat System, and the Armed Reconnaissance Helicopter, and the Electromagnetic Aircraft Launching System have all required funds to be reprogrammed in an execution year to correct shortfalls. This trend is disturbing and ultimately reduces overall stability in the Department's acquisition programs. The funding used to correct these shortfalls frequently comes from other acquisition programs, disrupting their development or production. The GAO reported in September 2008 that DOD is not receiving expected returns on its large investment in weapon systems. GAO found that the total acquisition cost of DoD's 2007 portfolio of major programs under development or in production has grown by nearly \$300 billion over initial estimates. Current programs are also experiencing, on average, a 21-month delay in delivering initial capabilities to the warfighter—often forcing DOD to spend additional funds on maintaining legacy systems.

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